April 21, 2011

AEOS Stakeholders
Interested Parties in the AESO 2010 ISO Tariff Application Proceeding

Dear Stakeholder

Re: AESO Consultation on Scope and Schedule for Electric Transmission Contribution Policy Proceeding (Application No. 1607193, Proceeding ID No. 1162)

1 The Alberta Electric System Operator (AESO) invites you to participate in consultation on the detailed scope of work and schedule to be submitted by the AESO for the Electric Transmission Contribution Policy Proceeding initiated by the Alberta Utilities Commission (Commission). The process letter and terms of reference issued by the Commission on April 13, 2011 are attached for your information.

2 A consultation meeting on this matter has been scheduled as follows:

   Date: Wednesday, May 11, 2011
   Time: 9:00 AM to 12:00 Noon
   Place: Board Room, 25th Floor, AESO Office
          2500, 330 – 5th Avenue SW, Calgary, Alberta
   Refreshments: Coffee, juice, pastries
   RSVP: By Friday, May 6, 2011 to Monique Metton, 403-539-2806 or monique.metton@aeso.ca

3 The AESO expects to discuss the following topics during the meeting:
   ● areas to be addressed in the AESO’s contribution policy application;
   ● areas to be excluded from the AESO’s contribution policy application;
   ● approach to and schedule for consultation on transmission contribution policy;
   ● schedule for the AESO’s contribution policy application, having consideration for the Decision 2010-606 direction that the AESO file its next comprehensive tariff application by March 31, 2013; and
   ● need for additional consultation, if any, prior to submission of the proposed scope and schedule for the contribution policy application.
**Background**

4 Many aspects of the construction contribution policy in the ISO tariff have been examined in recent AESO tariff application proceedings. Most recently, the AESO summarized contribution policy principles in Section 6.11 of its 2010 ISO tariff application (attached).

5 In considering the AESO’s contribution policy, and in particular the AESO’s proposed amortized construction contribution Rider I, the Commission stated in Decision 2010-606 (Section 9.3.1, page 58, paragraph 301), “Therefore, the Commission will establish a module, under a separate proceeding, to deal with aspects of the AESO’s customer contribution policy. The Commission will set out the full terms of reference for this proceeding in correspondence to be issued following this Decision.”

6 The Transmission Contribution Policy Proceeding provides the module referred to in Decision 2010-606, with its scope and schedule to be proposed by the AESO in accordance with the Commission’s process letter dated April 13, 2011 (page 2, paragraph 6):

> The detailed scope of work should list the areas to be addressed in an application by the AESO and the schedule should outline the start and end dates for consultation with stakeholders, an indication of how long it will take the AESO to prepare an application, and the date the AESO expects to file an application for the contribution policy proceeding.

7 The AESO is seeking to identify and explore with stakeholders the contribution policy features that should be included in the scope of work, as well as the approach and schedule that should be followed. The AESO expects to incorporate conclusions from this consultation into its submission in the Transmission Contribution Policy Proceeding, due to be filed by May 31, 2011.

**Guidelines for Scope**

8 The Commission also provided the following objectives for the Transmission Contribution Policy Proceeding in its process letter dated April 13, 2011 (page 1, paragraph 4):

> The Commission considers the primary objectives for the contribution policy proceeding are three-fold:

> (1) Examine the changes to legislation and the AESO’s tariff (including the findings in Decision 2010-606) which have increased the frequency and the amount of contributions.
(2) Examine the levels of contributions and their effects on market participants.

(3) Examine the underlying principles that create a requirement for customers to contribute capital, and specifically how the application of that principle should be used to determine contributions between two regulated utilities which already have underlying obligations to provide service.

The Commission included the following additional information in its terms of reference dated April 13, 2011 (page 3):

The contribution policy proceeding should focus on which customers are required to make a contribution, the level of contributions, and their effects on market participants.

The AESO is requested, in consultation with interested parties, to examine opportunities for potential changes to the AESO’s tariff which, if adopted, could reduce or limit the potential of CIAC balances to reduce the net rate base of transmission facility owners. Measures that could be investigated include, without limitation, changes to the AESO tariff that would exempt distribution facility owners from a requirement to make a contribution in some circumstances or adjust the average level of contributions by increasing the investment function multiplier. Notwithstanding, the Commission considers that the contribution policy proceeding is generally not intended to refine the functional form or structure of the maximum investment allowance.

For each opportunity identified, the AESO should describe the impact on rates, the expected impact on TFO contribution balances and should identify, as necessary, any other potential impacts or unintended consequences not discussed in this document.

The AESO considers that, based on the second paragraph quoted from the terms of reference, changes to the functional form or structure of the currently-approved maximum investment allowance is out-of-scope for the AESO’s application.

Additional Information

All information relating to the AESO’s contribution policy application will be available on the AESO website at www.aeso.ca by following the path Tariff ➔ Current Consultations ➔ Contribution Policy. As well, new information posted by the AESO on this topic will be mentioned in the AESO stakeholder newsletter, which you can subscribe to by clicking “Sign-up for our stakeholder newsletter” at the lower right of the AESO’s home page at www.aeso.ca.
If you have any questions on the AESO’s contribution policy application or consultation, please contact me at 403-539-2465 in Calgary or by e-mail to john.martin@aeso.ca.

Yours truly,

[original signed by]

John Martin
Director, Tariff Applications

cc: Heidi Kirrmaier, Vice-President, Regulatory, AESO
Raj Sharma, Senior Tariff Analyst, AESO

attachments
- Section 6.11 (pages 107-110) of AESO 2010 ISO Tariff Application
- Commission Process and Terms of Reference for Electric Transmission Contribution Policy Proceeding